

**REPORT OF THE AUDIT OF THE
BATH COUNTY
FORMER SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
June 17, 2006 Through May 25, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
BATH COUNTY
FORMER SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
June 17, 2006 Through May 25, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the former Bath County Sheriff for the period June 17, 2006 through May 25, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$2,566,658 for the districts for 2006 taxes, retaining commissions of \$100,883 to operate the former Sheriff's office. The former Sheriff distributed taxes of \$2,454,735 to the districts for 2006 taxes. Taxes of \$7,080 are due to the districts from the former Sheriff and refunds of \$844 are due to the former Sheriff from the taxing districts.

Report Comment:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits as of January 9, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$1,270,353

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Lowell Jamison, Bath County Judge/Executive

Honorable Randall Armitage, Former Bath County Sheriff

Members of the Bath County Fiscal Court

Independent Auditor's Report

We have audited the former Bath County Sheriff's Settlement - 2006 Taxes for the period June 17, 2006 through May 25, 2007. This tax settlement is the responsibility of the former Bath County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Bath County Sheriff's taxes charged, credited, and paid for the period June 17, 2006 through May 25, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 24, 2007 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Lowell Jamison, Bath County Judge/Executive
Honorable Randall Armitage, Former Bath County Sheriff
Members of the Bath County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

September 24, 2007

BATH COUNTY
 RANDALL ARMITAGE, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
 June 17, 2006 Through May 25, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 266,998	\$ 717,885	\$ 910,337	\$ 325,484
Tangible Personal Property	9,773	28,723	33,322	39,858
Increases Through Exonerations				4
Franchise Taxes	52,772	138,027	179,108	
Additional Billings	1	4	5	6
Bank Franchises	34,221			
Penalties	2,519	6,722	8,586	3,100
Adjusted to Sheriff's Receipt	50	159	153	396
Gross Chargeable to Sheriff	<u>366,334</u>	<u>891,520</u>	<u>1,131,511</u>	<u>368,848</u>
<u>Credits</u>				
Exonerations	3,052	8,590	10,405	6,711
Discounts	4,829	10,738	13,516	5,142
Delinquents:				
Real Estate	15,185	40,617	51,775	18,512
Tangible Personal Property	274	879	933	397
Total Credits	<u>23,340</u>	<u>60,824</u>	<u>76,629</u>	<u>30,762</u>
Taxes Collected	342,994	830,696	1,054,882	338,086
Less: Commissions *	<u>14,865</u>	<u>29,167</u>	<u>42,195</u>	<u>14,656</u>
Taxes Due	328,129	801,529	1,012,687	323,430
Taxes Paid	326,774	794,680	1,011,619	321,662
Refunds (Current and Prior Year)	<u>586</u>	<u>1,584</u>	<u>1,912</u>	<u>722</u>
Due Districts or		**		
(Refund Due Sheriff)				
as of Completion of Fieldwork	<u>\$ 769</u>	<u>\$ 5,265</u>	<u>\$ (844)</u>	<u>\$ 1,046</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

BATH COUNTY
 RANDALL ARMITAGE, FORMER SHERIFF
 SHERIFF'S SETTLEMENT - 2006 TAXES
 For The Period June 17, 2006 Through May 25, 2007
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,144,165
4% on	\$	1,237,716
1% on	\$	174,777

** Special Taxing Districts:

Library District	\$	3,572
Health District		323
Extension District		316
Soil Conservation District		124
Ambulance District		501
Fire Protection District		429

Due Districts	\$	<u>5,265</u>
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BATH COUNTY
NOTES TO FINANCIAL STATEMENT

May 25, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BATH COUNTY
NOTES TO FINANCIAL STATEMENT
MAY 25, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of May 25, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of January 9, 2007, public funds were exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$1,207,353

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 13, 2006 through May 25, 2007.

Note 4. Interest Income

The former Bath County Sheriff earned \$1,342 as interest income on 2006 taxes. The former Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The former Bath County Sheriff collected \$14,195 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The former Bath County Sheriff collected \$280 of advertising costs and \$265 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of September 24, 2007, the former Sheriff owed \$280 in advertising costs to the county and \$265 in advertising fees to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Lowell Jamison, Bath County Judge/Executive
Honorable Randall Armitage, Former Bath County Sheriff
Members of the Bath County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Bath County Sheriff's Settlement - 2006 Taxes for the period June 17, 2006 through May 25, 2007, and have issued our report thereon dated September 24, 2007. The former Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Bath County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Bath County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Bath County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Bath County Sheriff's Settlement – 2006 Taxes for the period June 17, 2006 through May 25, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The former Bath County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the former Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Bath County Fiscal Court, and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

September 24, 2007

COMMENT AND RECOMMENDATION

BATH COUNTY
RANDALL ARMITAGE, FORMER SHERIFF
COMMENT AND RECOMMENDATION

For The Period
June 17, 2006 Through May 25, 2007

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Sheriff's office lacked segregation of duties. All office staff collected receipts including the bookkeeper. The bookkeeper prepared daily checkouts, posted to the receipts ledger, completed bank reconciliations, and agreed bank balances to the ledgers. She also prepared, posted, and mailed all checks for disbursements. Good internal controls dictate the same employee should not handle, record and reconcile receipts. The former Sheriff should have segregated these duties or implemented additional oversight to strengthen internal controls.

Former Sheriff's Response: Okay.

